Supreme Court, U.S.
FILED
OCT 1 4 '02

No. 02-197

IN THE

Supreme Court of the United States

MONSANTO COMPANY,

Petitioner,

v.

BAYER CROPSCIENCE, S.A.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF IN OPPOSITION

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QUESTION PRESENTED

Whether the Federal Circuit correctly decided, in complete agreement with statutory and common law, that a non-exclusive patent sublicensee (as opposed to one who takes title) cannot assert a bona fide purchaser (BFP) defense against a patent owner who has been fraudulently induced to license its patent.

PARTIES TO THE PROCEEDING AND STATEMENT PURSUANT TO RULE 29.6

The parties to the proceeding before this Court are Monsanto Company and Bayer CropScience, S.A. When the case below was filed in the United States District Court for the Middle District of North Carolina, the plaintiff was named Rhone Poulenc Agrochimie S.A. Rhone Poulenc Agrochimie S.A. was subsequently renamed Rhone Poulenc Agro S.A., which was subsequently renamed Aventis CropScience S.A., which was subsequently renamed Bayer CropScience, S.A.

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Pursuant to United States Supreme Court Rule 15, respondent Bayer CropScience, S.A., hereby submits this brief in opposition to the petition for a writ of certiorari.

STATEMENT OF THE CASE

The petition begins with the erroneous statement that "[u]ntil this case, the BFP defense was clearly available to licensees of intellectual property." Pet. 2. As will be detailed below, the case below is the first time that the issue has ever been raised or decided. Notwithstanding Monsanto's citation to *Heidelberg Harris, Inc. v. Loebach*, 145 F.3d 1454 (Fed. Cir. 1998) (Pet. 3), Monsanto has not cited any authority that suggests that a licensee or sublicensee under a rescinded patent license can assert a BFP defense to statutory patent infringement.

Thus, the petition does not involve any disregard of established law. That this is the first time that the issue has been raised in the two centuries of this country's patent system also demonstrates the lack of the alleged commercial importance of the issue being asserted here.

A. DeKalb Fraudulently Obtained a Patent License from RPA and Sublicensed the Fraudulently Obtained Rights to Monsanto

In 1994, DeKalb Genetics Corporation ("DeKalb") defrauded Rhone Poulenc Agrochimie ("RPA") into giving DeKalb a license to valuable genetic technology that RPA had developed. Pet. App. 63a. Included among the rights that DeKalb had defrauded from RPA was a license to use a genetic element known as the Optimized Transit Peptide ("OTP"), and a license to sublicense those use rights.

Pet. App. 55a, 79a. The OTP is covered by the claims of United States Patent No. RE36,449 (formerly Patent 5,510,471), owned by RPA ("RPA Patent"). Pet. App. 2a.

After fraudulently obtaining its license to the OTP, DeKalb sublicensed it to petitioner Monsanto Company ("Monsanto"). Pet. App. 3a. At the same time, Monsanto acquired a forty percent equity interest in DeKalb and ten percent of DeKalb Class A voting stock. *Id.* Petitioner Monsanto later expanded its equity interest in DeKalb, and now owns 100% of the entity which defrauded respondent RPA.

B. Proceedings Below

In October 1997, after learning of DeKalb's fraud, RPA sued DeKalb and Monsanto in the United States District Court for the Middle District of North Carolina. RPA sought, *inter alia*, rescission of the 1994 licensing agreement by which DeKalb obtained its rights to RPA's genetic technology. Pet. App. 35a-155a. RPA also sought damages for DeKalb's and Monsanto's infringement of the RPA Patent. *Id.* Monsanto defended on the grounds that it had a valid license to practice the invention. *Id.*

With respect to RPA's claims against DeKalb, in 1999, a jury returned a verdict that DeKalb had indeed fraudulently induced RPA to enter into the 1994 licensing agreement. The district court, applying North Carolina law, ordered rescission of the licensing agreement, and awarded RPA damages for infringing the RPA Patent. Pet. App. 67a. On appeal, the Federal Circuit affirmed the judgment of the district court, agreeing that rescission of the 1994 licensing agreement was proper because it had been procured by fraud.

Rhone-Poulenc Agro, S.A. v. DeKalb Genetics Corp., 272 F.3d 1335 (Fed. Cir. 2001). *See* Pet. App. 23a-24a. The determination of fraud and the recission of the license are now final. Regarding the choice of law to apply, the Federal Circuit stated: "[t]he fraud claim was tried in the district court pursuant to North Carolina state law. We review issues not unique to patent law under the law that would be applied in the regional circuit where appeals from the district court would normally lie." *Id.* at 1344.

With respect to RPA's claims against Monsanto, the district court held that as a sublicensee of the RPA Patent, Monsanto was entitled to be considered a bona fide purchaser, and could not be held liable as a patent infringer. Pet. App. 4a. RPA appealed the decision to the Federal Circuit, where a panel initially held that it was bound by a prior panel decision, *Heidelberg Harris, Inc. v. Loebach*, 145 F.3d 1454 (Fed. Cir. 1998), which could have been construed to extend the BFP defense to patent licensees. Although the panel acknowledged that "the question of precedential effect [of *Heidelberg*] is a close one," and that the bona fide purchaser rule in *Heidelberg* "was not argued" and never presented as an issue for decision, the panel nonetheless felt compelled to regard it as precedent. Pet. App. 27a-28a.

RPA petitioned for rehearing *en banc*, arguing that *Heidelberg* did not control the BFP defense. RPA pointed out that the BFP rule was applied in *Heidelberg* by agreement of the parties, without briefing or argument before the court, and that the application of the BFP rule to patent licensees "should be reconsidered because it was never considered in the first place. Never should a rule, particularly as revolutionary as here, be created from anything less than a vigorous discourse of its merits."

The Federal Circuit, sitting *en banc*, agreed that "because of the unique circumstances in [*Heidelberg*], and the parties' not having contested the issue, *Heidelberg Harris* is not binding authority on the bona fide purchaser issue. . . ." Pet. App. 160a. The panel decision was vacated and the case was reassigned back to the same panel for further consideration. *Id.*

In a carefully formulated opinion, the court then correctly held that there is no BFP defense for non-exclusive licensees such as Monsanto. Pet. App. 19a. In its analysis, the court first held that the federal statute governing the BFP defense for patent assignees, 35 U.S.C. § 261, did not apply to mere licensees. Pet. App. 5a. The court then examined whether state law or federal law governs in this instance. After considering the issue, the court concluded that federal law governs, because, *inter alia*, it would be anomalous to have federal law governing patent assignees and state law governing patent licensees.[1] Pet. App. 7a-8a.

In accordance with *Scaltech, Inc. v. Retec/Tetra, LLC*, 269 F.3d 1321 (Fed. Cir. 2001), the court then looked to state common law, including the Uniform Commercial Code (UCC), in order to determine the federal rule concerning the BFP defense for patent licensees. Pet. App. 7a-8a. After a detailed analysis, the court determined that the BFP defense did not apply at common law to patent licensees, noting that "Monsanto has been unable to cite a single common law case in which the bona fide purchase rule was applied to the holder of a mere contract right, such as a license." Pet. App. 13a.

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1. The court also noted that, even if state law applied, under the applicable North Carolina law a licensee is not entitled to the BFP defense. Pet. App. 6a.

Undeterred, Monsanto attempted below to make the same erroneous argument which it proffers here: that the cases cited against it are "antiquated," and that the UCC's modern approach extends a BFP defense to mere licensees. Pet. App. 12a. After a careful analysis of the governing UCC provisions, the Federal Circuit correctly rejected that argument, noting that the official comments to the UCC specifically state that

> [t]here is no principle of bona fide purchaser of a mere contract right. Similarly, neither copyright nor patent recognize concepts of protecting a buyer in the ordinary course (or other good faith purchaser) by giving that person greater rights than were authorized to be transferred even if the transfer included delivery of a copy associated with the contract.

Pet. App. 13a.

Since neither 35 U.S.C. § 261, the common law, nor the UCC provide a mere licensee with a BFP defense, the Federal Circuit concluded that this defense does not apply to non-exclusive licensees such as Monsanto. Pet. App. 19a. Monsanto's petition for rehearing *en banc* of the court's second decision regarding the BFP defense was denied. Pet. App. 157a.

REASONS FOR DENYING THE PETITION

While Monsanto takes pains to point out the existence of a bona fide purchaser (BFP) defense for those who acquire interests in personal property (Pet. 8), it ignores the critical distinction that statutory law, common law, and the Federal Circuit have all made: BFP protection extends only to those who acquire *title* to personal property. The BFP defense has

never been available to patent licensees such as Monsanto. It was not available at common law, it is not available under the Uniform Commercial Code (UCC), and is not available under the Patent Act's recording provision, 35 U.S.C. § 261. Allowing the BFP defense to extend to patent licensees, as Monsanto urges, would contradict well-established case law and UCC provisions which provide BFP protection only to legal titleholders. More importantly, it would be completely inconsistent with the Patent Act's recording provision, 35 U.S.C. § 261, which provides a BFP defense only to those acquiring legal title to patents.

I. There is No BFP Defense for Mere Licensees Under the Patent Act

A. Patent Infringement is a Strict Liability Tort

A patentee's rights are concisely set forth in 35 U.S.C. § 271(a), which provides that "whoever *without authority* makes, uses, offers to sell or sells any patented invention . . . infringes the patent." (Emphasis added). The relevant question to be asked in an infringement analysis, subject to the other provisions of patent law, is whether the alleged infringer was "authorized" by the patent owner to practice the patent. Indeed, a violation of § 271(a) is a strict liability offense. *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 484 (1964) (under 35 U.S.C. § 271(a), "unauthorized use, without more, constitutes infringement"); *Jurgens v. CBK, Ltd.*, 80 F.3d 1566, 1570 n.2 (Fed. Cir. 1996) ("Infringement . . . is a strict liability offense.").

Section 261 of Title 35 creates a *limited* exception to the strict liability which is imposed upon an infringer: "[a]n assignment, grant or conveyance shall be void as against

any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent and Trademark Office within three months from its date or prior to the date of such subsequent purchase or mortgage." Thus § 261 creates a BFP defense, but only for those acquiring *title* to a patent.[2] As the Federal Circuit noted, the "statute is by its terms limited to situations in which the patent owner makes inconsistent assignments, grants, or conveyances to two entities, and the question is whether the later assignee should prevail." Pet. App. 5a.

B. Since Section 261 Creates a BFP Defense for Titleholders, It Necessarily Follows That This Defense Does Not Extend to Licensees

While Monsanto concedes that § 261 only creates a BFP defense for titleholders, it argues that § 261 is a 130-year old statute embodying "the dead hand of the common law," and that the Federal Circuit improperly relied upon it. (Pet. 13-16). Both assertions are wrong. Although the roots of this provision may be traced back 130 years, even the most cursory review of its legislative history makes it clear that it continues to be valid law today. Of paramount importance is the fact that the wording of the present day provision can be traced back to the 1952 amendment of the Patent Act, in which Congress repealed prior patent laws and extensively

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2. The statute's invocation of "[a]n assignment, grant, or conveyance" clearly refers to the passing of *title* to a patent. An assignment is defined as "[a] transfer or making over to another of the *whole* of any property. . . ." *Black's Law Dictionary* 119 (6th ed. 1990) (emphasis added). A grant is defined as "[a] conveyance; i.e., transfer of title by deed or other instrument." *Id.* at 699 (distinguishing grant from a mere license). Convey means to "pass or transmit the title to property from one to another." *Id.* at 333.

revised them. Act of July 19, 1952, Pub. L. No. 593, ch. 950, § 1, 66 Stat. 792, 810 (1952 Patent Act). *See In re Zurko*, 142 F.3d 1447, 1455 (Fed. Cir. 1998), *rev'd on other grounds*, 527 U.S. 150 (1999). This was a major overhaul of the patent laws, during which changes to every section were considered. That the BFP defense was not extended to mere licensees by this Act clearly indicates that Congress did not intend for this defense to be available to infringers. Section § 261 has been amended many times since then, without changes being made to the nature of the BFP defense.

Basic principles of statutory construction confirm that while Congress intended those possessing "assignments, grants, or conveyances" to have a BFP defense, it did not intend to extend the defense to those possessing mere "licenses." Although it does not appear in § 261, use of the term "license" appears throughout other sections of Title 35. *See* 35 U.S.C. § 271(d) (refusal to license patent not an act of patent misuse); 35 U.S.C. § 273(b) (defense based on earlier inventor not a general license); 35 U.S.C. §§ 202, 203, 204, 207, 208, and 209 (licensing provisions for inventions made with federal funding); 35 U.S.C. § 287 (request for disclosure provisions for licensees).

In Sections 202 and 203, the Patent Act clearly distinguishes between the *assignment* and the *licensing* of inventions made with federal funding. *See, e.g.*, 35 U.S.C. § 202(e)(1), § 203(1). As this Court has stated previously, " 'where Congress includes particular language in one section of a statute but omits it in another section of the same Act, it is generally presumed that Congress acts intentionally and purposely in the disparate inclusion or exclusion.' " *Brown v. Gardner*, 513 U.S. 115, 120 (1994) (quoting *Russello v. United States*, 464 U.S. 16, 23 (1983)). There can be no

mistake that Congress intended the BFP defense to be limited to those instances in which a patentee relinquishes title to the patent. Had it intended this defense to be available to licensees, it could have easily inserted the term "licenses" into the text as it had done in other sections of the Patent Act.

Monsanto's contention that the Federal Circuit improperly relied upon § 261 is equally without merit. The Federal Circuit did not rely upon § 261 alone as the basis for its analysis. To the contrary, it even stated, before examining the relevant case law and the UCC in detail, that "[s]ection 261 does not directly govern the resolution of this question." Pet. App. 6a. If anything, the Federal Circuit's analysis went improperly beyond a consideration of § 261, as this statute on its face plainly limits the sole exception to strict liability for patent infringement to those BFP's acquiring title to patents. Any other interpretation would be inconsistent with well settled principals of statutory construction.

Although the Federal Circuit correctly acknowledged that "[s]ection 261 of Title 35 reflects a determination by Congress that only those who have obtained an 'assignment, grant or conveyance' may benefit from the protection of the statute" (Pet. App. 18a), it nonetheless examined the common law and the UCC to determine whether additional, non-statutory exceptions to § 271's strict liability could be found. Such non-statutory exceptions would be without legal foundation, although the Federal Circuit's additional analysis proved harmless as it ultimately found that there is no BFP defense for patent licensees such as Monsanto under the common law or UCC.

II. There is No Common Law BFP Defense for Mere Licensees

This Court has repeatedly stated that the BFP defense is available only to legal titleholders. As plainly stated by the Court in rejecting a BFP defense:

> They did not acquire the legal title. And in order to establish in himself the character of a bona fide purchaser, so as to be entitled to the protection of chancery, a party must show that, in his purchase and by the conveyance to him, he acquired the legal title.

Hawley v. Diller, 178 U.S. 476, 485 (1900) (quoting *Root v. Shields*, 20 F. Cas. 1160, 1167 (C.C. Neb. 1868)); *see also Boone v. Chiles*, 35 U.S. 177, 211-12 (1836) (in order for party to assert BFP defense, its "title purchased must be apparently perfect, good at law, a vested estate in fee-simple"); *Smith v. Orton*, 131 U.S. app. lxxv, lxxviii (1866) ("To bring the defence within [the BFP rule], it must be averred . . . that the conveyance was by deed, and that the vendor was seised of the legal title."); *Villa v. Rodriguez*, 79 U.S. 323, 338 (1870) (the BFP defense "applies only where the legal title has been conveyed and the purchase money fully paid"); *Wright-Blodgett Co. v. United States*, 236 U.S. 397, 403 (1915) ("as the legal title has passed, bona fide purchase for value is a perfect defense"); *Duncan Townsite Co. v. Lane*, 245 U.S. 308, 311 (1917) ("[T]he doctrine of bona fide purchaser for value applies only to purchasers of the legal estate.").

A patent assignment passes title to a patent, whereas a patent license is a mere contract and does not. The critical distinction between the passing of title and the passing of mere contract rights has always been made at common law, with the BFP defense extending only to the former:

> One who has legal title to real estate or to chattel property which he holds subject to an equity, and who transfers his legal title to a bona fide purchaser for value without notice, transfers a title freed from the equity. But the assignee of a non-negotiable chose in action . . . , though he buys it for value, and in good faith, takes it subject to all defenses which the obligor may have had against the assignor. . . .

WILLISTON ON CONTRACTS § 432 (3d ed. 1960). The well established rule that the assignee of a non-negotiable instrument takes it subject to equities applies to contracts generally. *Id.* Fraud, in particular, is one of the defenses which a good faith assignee of a contract may have asserted against it. *Id.*

This distinction is in complete accord with the equitable doctrine of rescission, which was applied by the district court in this case when it rescinded the 1994 agreement between RPA and DeKalb. Rescission is summarized as follows:

> Rescission is a retroactive remedy and renders a contract unenforceable from the outset. The effect of rescission is to return the parties to their respective conditions as if no contract ever existed. Rescission abrogates the contract not partially but completely, for all purposes.

17B C.J.S. Contracts § 492 (1999); *see also Dow Chemical Co. v. United States*, 226 F.3d 1334, 1345 (Fed. Cir. 2000)

("Rescission has the effect of voiding a contract from its inception, i.e., as if it never existed. It is an equitable doctrine which is grounded on mutual mistake, fraud, or illegality in the formation of a contract.") (internal citation omitted). As the license between RPA and DeKalb was *void ab initio*, any sublicenses by DeKalb are also ineffectual.

In instances in which contracts have been rescinded due to fraud, it has been consistently held that there is no BFP defense when the contract passes anything less than legal title to goods. WILLISTON §§ 1489, 1531. Indeed, in the intellectual property context, courts have established that a sublicensee can have no greater rights than the licensee. When the licensee's rights are extinguished, so are the sublicensee's. In *Costello Publishing Co. v. Rotelle*, 670 F.2d 1035 (D.C. Cir. 1981), a valid copyright licensee sublicensed another publisher. Subsequently, the licensee/sublicensor violated the original license, and the court held that the sublicensee could be sued for infringement:

> [I]f [licensee] failed to satisfy a condition to its license or materially breached the license agreement, it had no rights under which [sublicensee] could take cover and therefore both [licensee] and [sublicensee] acted without authority and infringed defendant-intervenors' copyright. [Sublicensee's] good faith use of the material would not insulate [sublicensee], for intent is not an element of infringement, and the copyright holder may proceed against any member of the chain of distribution.

670 F.2d at 1044 (citations and footnote omitted). *See also Imperial Appliance Corp. v. Hamilton Mfg. Co.*, 239 F. Supp.

175, 177 (E.D. Wis. 1965) ("In granting a sublicense to Hamilton, Imperial could transfer only such rights as it held under its license from the patent holder.").

Although Monsanto complains that it would be inequitable for it to bear the loss in this instance (Pet. 6-9), an examination of the relevant factors dictates otherwise. In instances in which a patent license has been obtained by fraud, it is questionable whether the purchase of a sublicense stemming from the fraudulent license can ever be "for value." Patent sublicenses are limited by the terms of the original agreement between the licensor and licensee. Brunsvold & O'Reilley, DRAFTING PATENT LICENSE AGREEMENTS 36-37 (4th ed. 1998). If the original license was obtained by fraud, then the sublicense perpetuates the fraud. Licensing terms which should be negotiated at arms length, such as the royalty rate and structure, geographic restrictions, the duration of license, and the rights of the respective parties relating to enforcement of the patent, are instead induced by fraud. The sublicensee obtains a license on the same terms, and directly benefits from the fraud. Purchases under these conditions can hardly be said to be "for value," and Monsanto in effect seeks to perpetuate the fraud committed against RPA.

A sublicensing transaction is readily distinguishable from a sale of goods, in which the BFP defense applies. The effect of the fraudulent transaction does not carry over in a sale of goods. The fraudulent transaction is independent of the subsequent purchase for value, and the BFP receives no benefit from the fraud. Thus the BFP defense is equitable when a sale of goods is involved.

Further, the usual situation where the bona fide purchaser defense is applied is where the perpetrator of the fraud is

nowhere to be found, thus leaving two "innocent" parties to suffer the resulting loss. This situation is much less likely to occur in a patent licensing context, which typically involves large corporations. The instant case is illustrative, as the perpetrator of the fraud, DeKalb, is still viable and available. Indeed, DeKalb is now wholly-owned by Monsanto, and was 40% owned at the time of the transaction. Pet. App. 3a. Contrary to Monsanto's argument that it is without remedy, patent sublicensees have a long established remedy against a principle licensee perpetrating a fraud in the form of a breach of warranty action. 2 DELLER'S WALKER ON PATENTS, § 386; *see* also Brunsvold at 144 (stating that it is often desirable to include a standard licensing clause warranting that licensor has authority to grant a patent license to a licensee).

Monsanto's blithe statement that it is "black letter patent law" that a BFP sublicensee enjoys its license after the principle license is extinguished (Pet. 2-3, 10) is misleading at best. The treatises it cites (ELLIS ON PATENT LICENSES § 62 3d ed. 1958, Brunsvold at 37) stand for the proposition that a sublicense continues even after termination of the principle license. This often occurs when a principle license is terminated *by agreement of the parties*, for it is typical for licenses to allow one or both parties to terminate the license under predetermined circumstances. When this happens a sublicense continues to be in effect. As the Federal Circuit noted in rejecting Monsanto's argument (Pet. App. 15), the treatises do not state that sublicenses remain in effect even when the principle license has been procured through fraud, nor do they even discuss the BFP defense upon which Monsanto relies.

Noticeably lacking in Monsanto's argument is citation to case law standing for the asserted proposition that a patent licensee enjoys a BFP defense. While Monsanto trumpets the *Heidelberg* decision as instructive (Pet. 8), the Federal Circuit's *en banc* decision specifically holding that this case did *not decide* the issue illustrates the utter lack of case law upon which Monsanto can rely. Pet. App. 160a. As the Federal Circuit observed, "Monsanto has been unable to cite a single common law case in which the bona fide purchase rule was applied to the holder of a mere contract right, such as a license." Pet. App. 13a.

III. The UCC Does Not Provide a BFP Defense for Patent Licensees

Monsanto argues that the Federal Circuit should have rejected centuries of common law holding that there is no BFP defense for licensees, and should have instead followed modern BFP principals embodied in the UCC. Pet. 13. Monsanto's tossing aside of the common law is without authority, and its conclusion that the UCC provides a BFP defense for patent licensees is flatly wrong. While it may be desirable for courts to follow a modern approach in resolving commercial disputes, courts cannot simply overrule centuries of common law based on mere whim. It is axiomatic that any provisions contained within the UCC which overrule common law principles must be explicit, and cannot be implied. *See Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 534 (1994) ("Statutes which invade the common law . . . are to be read with a presumption favoring the retention of long-established and familiar principles, except when a statutory purpose to the contrary is evident.") (quoting *Isbrandtsen Co. v. Johnson*, 343 U.S. 779, 783 (1952)).

An analysis of the UCC readily indicates that it did not change the common law rule that there is no BFP defense for patent licensees. To the contrary, as the Federal Circuit correctly noted, comments to the UCC explicitly state the opposite—that there is no BFP defense for patent licensees. Pet. App. 13a.

The UCC articles which arguably have a bearing on the BFP defense are Article 2 (sale of goods), Article 2A (licensing of goods), Article 9 (security interests), and Article 2B (also known as the Uniform Computer Information Transactions Act (UCITA)). While Monsanto presents a confusing discussion of the various articles in an attempt to weave them into a BFP defense for patent licensees, an examination of them shows that, with the exception of the official comment to UCITA, none of them are directly on point.

Article 2-403, which Monsanto ignores, codifies the BFP defense for the sale of goods. It states that "a person with voidable title has power to transfer a good title to a good faith purchaser for value." As correctly noted by the Federal Circuit (Pet. App. 12a), this article limits the BFP defense to those purchasers acquiring *title* to goods. Purchasers acquiring anything less than title are not entitled to a BFP defense. Although a patent license is not a "good" under this provision of the UCC, this article nonetheless conforms to the vast body of common law which provides a BFP defense only to those with legal title.

Articles 2A-304 and 2A-305, upon which Monsanto places great stock, relate to the leasing of goods. While creating a BFP defense for lessees of goods, this article is not relevant because intellectual property is specifically

excluded from the definition of "goods" under the UCC. Pet. App. 17a n.9. Moreover, a lease under Article 2A "means a *transfer* of the right to possession and use of goods for a term in return for consideration." UCC § 2A-103(j) (emphasis added). Thus, Article 2A's BFP provision arises because a lease is the transfer (for a term) of an exclusive property interest—akin to a transfer of title. *See* Restatement (Second) of Torts § 356 ("When land is leased to a tenant, the law of property regards the lease as equivalent to a sale of the land for the term of the lease."). In the case of a non-exclusive patent sublicensee such as Monsanto, there is no *transfer* of any good—indeed, there is no transfer of any rights—but only a grant of a contractual right to practice a patent. Monsanto's non-exclusive sublicense rights are not equivalent to a transfer of title.

Article 9-321(b) only provides that a "licensee in the ordinary course of business takes its rights under a nonexclusive license free of a security interest in the general intangible created by the licensor." This article does not create a general BFP defense for licensees as Monsanto suggests. Rather, it only protects a BFP against a competing security interest. In fact, the inclusion of such a narrow BFP defense indicates that the drafters did not intend for there to be a general BFP defense for licensees. *Brown v. Gardner*, 513 U.S. 115, 120 (1994).

The lack of a general BFP defense for patent licensees under the UCC is confirmed by the drafters themselves. As stated by the drafters of the Uniform Commercial Code: "There is no principle of bona fide purchaser of a mere contract right. . . . [N]either copyright nor patent recognize concepts of protecting a buyer in the ordinary course (or other good faith purchaser)." Pet. App. 13a (quoting Official

Comment 3 to the Uniform Computer Information Transactions Act). This comment expressly rebuts Monsanto's argument that the UCC should be interpreted to provide for a BFP defense for patent licensees.

IV. Monsanto Greatly Exaggerates the Impact of the Federal Circuit's Holding

Monsanto argues, as it must, that the Federal Circuit's decision below creates an issue of enormous commercial importance. Pet. 6. The statement is made that every year in the United States patent licensing transactions valued at more than $100 billion take place. *Id.* This figure primarily relates to *licenses*, however, not *sublicenses*. Many licenses do not even allow for sublicenses, and the right to sublicense must be expressly granted in the licensing agreement. Brunsvold at 36. Further, the impact of the Federal Circuit's decision is limited to not only those instances in which a sublicense exists, but also the much rarer instance in which the principle license was procured through fraud. The Federal Circuit's decision is of enormous commercial importance only if rampant fraud exists in the licensing world, and Monsanto has not shown this to be the case.

To the contrary, the dearth of case law directly on point suggests that the Federal Circuit's decision will have only a minimal impact in commerce. The only case which Monsanto cites as directly on point (Pet. 8), *Heidelberg*, was held by the *en banc* Federal Circuit as "not binding authority on the bona fide purchaser issue." Pet. App. 160a. Monsanto's contention regarding the impact of the Federal Circuit's decision simply folds upon the realization that the necessary combination of fraud and an underlying sublicensee claiming to have purchased for value is relatively rare.

Monsanto's other claims about the impact of the Federal Circuit's decision are equally exaggerated, and in some instances simply illustrate features already inherent in the patent system. Monsanto's statement (Pet. 7-8) that licensees will now have to perform exhaustive due diligence searches to protect themselves is incorrect.

First, to avoid the situation which Monsanto finds itself in, a potential sublicensee can opt to take a license directly from the patent owner. Any sublicensee of patent rights can seek a license or confirmation directly from the patent owner, and can demand reasonable protection from the licensee-sublicensor. Second, aggrieved sublicensees such as Monsanto are not without remedy. They have a valid claim for breach of warranty (express or implied) against the principle licensee. 2 DELLER'S WALKER ON PATENTS, § 386; Brunsvold at 144. Third, the patent owner and the sublicensee can always agree to a novation of the sublicense and continue business as usual.[3]

There is always a certain amount of business risk faced by any licensee, due to the uncertainty of the validity of the patent which is licensed. A licensee routinely needs to take this into consideration in its determination of whether to take a license, and in whether to make investments in implementing the rights granted under the license. This is a much bigger concern than the remote possibility that a nonexclusive sublicense may be voided due to fraud on the part of the principal licensee.

3. Indeed, while Monsanto argues that businesses in general may be harmed by the Federal Circuit's ruling, it must be noted that Monsanto's actual harm in this case is questionable, as the RPA Patent is now licensed to DeKalb from the patent owner, providing Monsanto with the right to use.

Likewise, Monsanto's statement (Pet. 8-9) that a patentee will now have an incentive to wait before bringing suit for damages says nothing new, as it is already an aspect of the patent system. Absent estoppel considerations, a patentee will recover more damages by waiting to sue an infringer, particularly if the infringer is making the patented item on a continuing basis. Whether desirable or not, this facet of the patent system does nothing to alter the Federal Circuit's correct conclusion that the BFP defense is not available to non-exclusive patent licensees.

At the same time, the court's decision recognizes that patent owners have legitimate rights created by federal law in their patents. The denial of a BFP defense to a sublicensee of a fraudulently-procured rescinded agreement only protects those statutory rights provided by the patent code.

V. The Applicable State Law Does Not Recognize a BFP Defense When a License Is Held to Be Void *Ab Initio*

In a last-ditch effort to grab the Court's attention, Monsanto argues that the Federal Circuit ignores state law in its analysis. Pet. 16-18. The argument is misleading in two respects. First, the applicable North Carolina state law is that the BFP defense applies only to title holders and not to licensees or sublicensees.[4] Second, recognizing that the applicable state law does not support its position, Monsanto argues that the Federal Circuit ignored "[s]tate law as expressed in the UCC." Pet. 16. To the extent that this argument has any validity, it rests on the assumption that the

4. As the Federal Circuit correctly held (Pet. App. 6a), under the applicable North Carolina law, a licensee is not entitled to the BFP defense. *Wilson v. Commercial Fin. Co.*, 239 N.C. 349, 79 S.E.2d 903 (1954).

Federal Circuit ignored the UCC in its analysis. The Federal Circuit extensively considered the UCC in its analysis, however, and correctly concluded that the UCC supports the conclusion that there is no BFP defense for a mere licensees. Pet. App. 12a-17a.

Monsanto further muddies the waters by complaining that the Federal Circuit did not perform a "preemption" analysis pursuant to *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979). Pet. 18. But, there is no preemption issue. The Federal Circuit never said that federal law "preempted" any state law, and the word "preemption" is never used in the court's decision. The court stated that "[w]e hold that the bona fide purchaser defense is governed by federal law," and devoted a large section of its opinion to explaining its rationale. Pet. App. 6a-8a. The court concluded that federal law governs the BFP defense, because "[i]t would be anomalous for federal law to govern that defense in part [i.e., assignments as reflected in 35 U.S.C. § 261], and for state law to govern in part. There is quite plainly a need for a uniform body of federal law on the bona fide purchaser defense." Pet. App. 7a (citing *Florida Prepaid Postsecondary Educ. Expense Bd. v. College Savings Bank*, 527 U.S. 627, 645 (1999)). Then, the court applied federal law that was significantly informed and based on accepted state law and general common law principles.

To be sure, the Federal Circuit could have reached the same decision on the basis of state law rather than federal common law. As noted above at note 4, *supra*, North Carolina has so far permitted the BFP defense only to titleholders, not licensees, much less sublicensees. Moreover, North Carolina state contract law does not appear to allow a BFP defense available after a contract has been held to be *void ab initio*.

Under North Carolina law, and consistent with accepted common law principles, the remedy for inducing a license by fraud is rescission. *Rhone-Poulenc Agro, S.A. v. DeKalb Genetics Corp.*, 272 F.3d at 1344. The legal effect of this is that the license is *void ab initio*. As the principle license between RPA and DeKalb legally never existed, the sublicense between DeKalb and Monsanto is likewise unenforceable. *Wilson v. Commercial Fin. Co.*, 239 N.C. 349, 79 S.E.2d 908 (1954). Monsanto's suggestion that "UCC-based State law" be applied (Pet. 17) seeks to improperly rewrite the UCC—seeking a revision rather than application of state law. (Pet. 17) It also seeks to inject a BFP defense into the equitable doctrine of rescission where none has previously existed and simply ignores the straightforward analysis which results when state law is applied.

CONCLUSION

Contrary to Monsanto's petition, the Federal Circuit studiously applied existing precedent, based on both federal and state law, in determining that a sublicensee under a fraudulently-procured rescinded patent license does not have a BFP defense in a statutory patent infringement action. The decision does not create obstacles to patent licensing, but does protect the legitimate statutory rights of the patent holder. For the foregoing reasons, the petition for a writ of certiorari should be denied.

Respectfully submitted,

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